

Message Text

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SS-15 STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02
OMB-01 DOE-11 XMB-02 SIL-01 /130 W
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R 222134Z FEB 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 5055
INFO ALL EC CAPITALS
USMISSION GENEVA
AMCONSUL TURIN
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO

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USEEC

GENEVA ALSO FOR MTN; PARIS ALSO FOR OECD

E.O. 11652: N/A
TAGS: EEC, EIND, ETRD, EGEN
SUBJECT: EC AUTO INDUSTRY FACES PROBLEMS

REF: 77 EC A-39

1. SUMMARY: EC COMMISSION OFFICIALS AND INDUSTRY SOURCES
ARE CAUTIONING AGAINST HOPES FOR SIGNIFICANT LONG-TERM
GROWTH IN THE COMMUNITY AUTO INDUSTRY AND UNDERScore THE
DIFFICULTY OF EUROPEAN MANUFACTURERS MAINTAINING THEIR
SHARE OF THE WORLD MARKET OVER THE NEXT DECADE. IN THE
FACE OF STRUCTURAL AND TECHNOLOGICAL CHANGES, DECLINING
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PRODUCTIVITY, AND INCREASING COMPETITION, THE COMMISSION
RECOMMENDS INDUSTRY ACTION TO FORM JOINT PRODUCTION PRO-
JECTS, COOPERATE IN RESEARCH, AND FACILITATE
INTERNATIONAL MERGERS. IT ALSO CALLS ON MEMBER STATES
TO COOPERATE IN THE HARMONIZATION OF TECHNICAL LAWS AND
STATE SUBSIDIES.

THERE IS CONCERN AMONG EC COMMISSION OFFICIALS THAT UNLESS PROMPT ATTENTION IS APPLIED TO THIS PROBLEM, THE MOTOR VEHICLE INDUSTRY WILL BE FACING SOME OF THE SAME PROBLEMS WHICH HAVE BATTERED THE EC STEEL INDUSTRY. THE COMMISSION DOES NOT ENVISAGE TRADE OR STRUCTURAL MEASURES SIMILAR TO THOSE TAKEN FOR STEEL BUT HOPES TO ENCOURAGE INDUSTRY TO ADJUST BEFORE THE PROBLEMS BECOME MORE SERIOUS. END SUMMARY

2. IN THE PAST SIX MONTHS COMMISSION ATTENTION HAS BEEN DRAWN INCREASINGLY TO PROBLEMS OF THE AUTO INDUSTRY AND TO ITS FUTURE ROLE IN THE COMMUNITY. COMMISSIONER FOR INDUSTRIAL AFFAIRS, ETIENNE DAVIGNON, HAS MET TWICE WITH TOP EXECUTIVES OF MAJOR AUTO MANUFACTURERS AND CONSIDERABLE ANALYSIS IS BEING DEVOTED TO THE SITUATION OF THE INDUSTRY.

3. BASED ON CONVERSATIONS WITH EC AND INDUSTRY OFFICIALS, THE FOLLOWING VIEW OF GENERAL PROSPECTS FOR THE EC AUTO INDUSTRY EMERGES:

4. THE AUTO INDUSTRY WAS A MOTOR OF ECONOMIC DEVELOPMENT IN POST-WAR EUROPE UNTIL THE OIL CRISIS, INFLATION AND ECONOMIC UNCERTAINTY CHECKED ITS UNINTERRUPTED GROWTH IN 1974. SOME OBSERVERS QUESTION WHETHER THE 1974 CRISIS WAS AN ACCIDENT OR IF IT MARKED A FUNDAMENTAL CHANGE OF DIRECTION FOR THE AUTOMOBILE INDUSTRY. THE INDUSTRY LIMITED OFFICIAL USE

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REPRESENTS AN IMPORTANT PART OF ECONOMIC LIFE IN WESTERN EUROPE, EMPLOYING SIX MILLION WORKERS DIRECTLY AND MILLIONS OF OTHERS IN A MULTITUDE OF FIRMS DEALING WITH SUB-CONTRACTING, DISTRIBUTION, MAINTENANCE AND REPAIR.

5. LAST YEAR WAS A VERY GOOD YEAR FOR THE AUTOMOTIVE INDUSTRY BUT REAL STRUCTURAL PROBLEMS MAY BECOME ACUTE IN FIVE YEARS' TIME. THEREFORE, THERE IS A NEED FOR INDUSTRY TO BEGIN EFFORTS TO REORGANIZE. FOR THE MOMENT THERE IS NO THOUGHT BEING GIVEN TO IMPLEMENTING A COMPREHENSIVE EC INDUSTRIAL POLICY FOR THE AUTOMATIVE SECTOR AND THE COMMISSION IS RESISTING PRESSURES FOR ACTION TO COUNTER IMMEDIATE TRADE PROBLEMS.

6. THE EC AUTOMOBILE INDUSTRY IS CONFRONTED BY A REDUCED GROWTH RATE IN ITS INTERNAL MARKET AND SEVERE COMPETITION FROM FOREIGN PRODUCERS IN ITS OWN MARKET AS WELL AS IN THIRD-COUNTRY MARKETS. THE MARKET MAY HAVE APPROACHED A SATURATION POINT IN ITS POST-WAR GROWTH. IN RECENT YEARS PRODUCTIVITY HAS DECLINED DUE TO THE RELATIVELY SMALL SCALE OF FIRMS, THE PRODUCTION OF SOMETIMES OVERLY SOPHISTICATED MODELS, AND A FUNDAMENTAL CONDITION OF

OVERCAPACITY. THE COMPETITIVE POSITION OF EC AUTO-MAKERS HAS BEEN FURTHER ERODED BY GENERALLY HIGH RATES OF INFLATION FOR LABOR AND MATERIAL COSTS AND, FOR CERTAIN MARKETS, THE APPRECIATION OF EXCHANGE RATES. IN ADDITION THE AUTO-MAKERS FEAR THE PRICE EFFECTS ON MOTOR VEHICLES OF MEASURES WHICH THE EC HAS TAKEN TO HELP THE STEEL INDUSTRY.

7. JAPANESE COMPETITION, BENEFITING FROM COMPETITIVE MODELS AND PRICES, HAS GROWN DRAMATICALLY IN THE PAST THREE YEARS AND THREATENS TO MAKE ITSELF FELT EVEN MORE INTENSELY ON THE EUROPEAN MARKET. THERE IS ALSO AWARENESS THAT COMPETITION FROM US MANUFACTURERS WHO ARE PRESENTLY PRODUCING MODELS MORE ABLE TO COMPETE HEAD TO HEAD WITH LIMITED OFFICIAL USE

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EUROPEAN AUTOMOBILES, MIGHT WELL WIN BACK A PORTION OF THE US IMPORT MARKET, AND COULD EVEN BECOME A FACTOR ON THE EUROPEAN MARKET. (THESE FEARS ARE COUNTERED BY THE HOPE ON THE PART OF SOME EUROPEANS THAT CHANGING AMERICAN TASTES WILL HELP THE EXPERIENCED SMALL-CAR MAKERS IN EUROPE INCREASE THEIR SALES TO THE U.S.) COMPETITION FROM EASTERN EUROPEAN COUNTRIES, ALREADY SIGNIFICANT, IS ALSO EXPECTED TO INCREASE. IN THIRD COUNTRY EXPORT MARKETS, ESPECIALLY THOSE OPENING IN THE LDC'S, THERE WILL BE SIMILAR COMPETITION.

8. THE COMMISSION IS UNDER PRESSURE FROM INDUSTRY AND SOME GOVERNMENTS TO GRANT RELIEF FROM IMPORTS. FIAT LIMITED OFFICIAL USE

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PRESIDENT GIOVANNI AGNELLI RECENTLY SAID HE IS IN FAVOR OF CAR IMPORT QUOTAS FOR JAPAN AND EASTERN EUROPE AND OF EC COORDINATION OF EXPORT CREDITS FOR TURN-KEY CAR PLANTS ABROAD. IN 1971 IMPORTS REPRESENTED ONLY ABOUT 1.7 PERCENT OF THE EC MARKET. BY 1977 THIS FIGURE REACHED AN ESTIMATED TEN PERCENT. JAPANESE IMPORTS ARE BY FAR THE MOST SIGNIFICANT FACTOR ACCOUNTING FOR OVER 20 PERCENT OF THE MARKET IN SEVERAL MEMBER STATES. THE UK HAS BEEN PARTICULARLY SENSITIVE TO THESE IMPORTS, BUT BOTH INDUSTRY AND COMMISSION OFFICIALS AGREE THAT RECENT JAPANESE CAPACITY INVESTMENTS BODE ILL FOR THE EUROPEAN AUTO INDUSTRY. THE COMMISSION HAS RESISTED INDUSTRY DEMANDS FOR TRADE RESTRICTIONS ON GROUNDS THAT THEY WOULD BE INCONSISTENT WITH EC TRADE PHILOSOPHY AND ITS POSITION AS A LARGE NET EXPORTER OF AUTOS. FURTHERMORE, TRADE RESTRICTIONS ON AS MAJOR A PRODUCT AS AUTOMOBILES WOULD IMPEDE EC EFFORT TO SUPPORT TRADE LIBERALIZATION GOALS OF MTN. - ..""LY WEAK.

9. THE EC AUTOMOBILE INDUSTRY IS ALSO STRUCTURALLY WEAK. FIRMS ARE STILL LARGELY ORGANIZED ON NATIONAL BASES AND THE FACT THAT MANY ARE PARTIALLY STATE-CONTROLLED MAKES FURTHER EUROPEAN INTEGRATION MORE DIFFICULT. THESE DIFFICULTIES IMPEDE PRACTICAL MEASURES FOR ACHIEVING ECONOMIES OF SCALE THAT COULD SIGNIFICANTLY ENHANCE PRODUCTIVITY AND ELIMINATE COMPETITIVE BATTLES BETWEEN THE DIFFERENT AUTOMOBILE PRODUCERS. AS WITH MANY OTHER INDUSTRIES IN EUROPE, ONLY AFFILIATES OF THE US MANUFACTURERS HAVE SO FAR SUCCEEDED IN COORDINATING PRODUCTION ACTIVITIES ACROSS BORDERS.

10. THE EC COMMISSION APPEARS TO BE PAYING MORE ATTENTION TO THE POSSIBILITIES OF FAVORING, IF NOT INTEGRATION OF PRODUCTIVE STRUCTURES, AT LEAST COOPERATION THROUGH

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TECHNICAL, COMMERCIAL OR RESEARCH AGREEMENTS. PRODUCTION OF INTERCHANGEABLE PARTS COULD BE ONE EXAMPLE OF THIS COOPERATION. ALREADY THERE HAVE BEEN AGREEMENTS FOR DEVELOPMENT OF COMMON MOTORS FOR RENAULT, PEUGEOT AND VOLVO AND BETWEEN RENAULT AND FIAT (DIESEL) FOR SOME PARTS.

11. COMMISSION OFFICIALS FEEL THAT MORE COOPERATION AMONG COMPANIES IS NECESSARY, GIVEN THE NEED TO DEVELOP NEW TECHNOLOGY IN THE FIELD OF ENVIRONMENTAL CONTROLS, SAFETY, AND FUEL CONSUMPTION. UNTIL NOW, THE PRINCIPAL EC CONTRIBUTION TO A COMMON BASE FOR ITS CAR INDUSTRY HAS BEEN IN THE DEVELOPMENT, WITH CLOSE COOPERATION FROM MEMBER STATES AND INDUSTRY, OF OVER THIRTY TECHNICAL STANDARDS COVERING SUCH MATTERS AS SAFETY LIGHTS, TIRES, EMISSION CONTROLS, ETC.

12. THE COMMISSION IS ALSO ACTIVELY ENCOURAGING RESEARCH AND DEVELOPMENT IN THE FIELD OF ELECTRIC VEHICLES. THREE LARGE ELECTRICAL COMPANIES FROM THE UK, FRANCE AND FRG HAVE AGREED TO JOIN TOGETHER FOR RESEARCH, STANDARDIZATION AND PROMOTION ACTIVITIES. THE COMMISSION WILL PROBABLY GRANT FINANCIAL AID TO THE PROJECT. IT ESTIMATES THAT BY 1990 ABOUT EIGHT PERCENT OF THE VEHICLE POPULATION IN EUROPE WILL BE ELECTRIC. THESE WILL BE MOSTLY SERVICE VEHICLES.

13. US AUTO-MAKERS IN EUROPE (FORD, GM, AND CHRYSLER) POSE A PROBLEM FOR THE COMMISSION. THESE COMPANIES ACCOUNT FOR OVER ONE-THIRD OF AUTO PRODUCTION WITHIN THE EC. HOWEVER, FOR FEAR OF RUNNING AFOUL OF US ANTI-TRUST LAWS, THEY HAVE AVOIDED COLLECTIVE CONTACTS BETWEEN THE EC COMMISSION AND THE AUTO COMPANIES. FORD AND GM HAVE, HOWEVER, MET INDIVIDUALLY WITH DAVIGNON AND WILL DO SO A SECOND TIME IN THE COMING WEEKS. FORD OFFICIALS TOLD MISSION OFFICER THAT, WHILE IN AGREEMENT RE THE THREAT OF JAPANESE IMPORTS, THEY WORRIED LESS THAN

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THEIR EUROPEAN COUNTERPARTS ABOUT CHANGES AHEAD BECAUSE US SUBSIDIARIES WERE BETTER STRUCTURED. THEY ARE ANXIOUS, HOWEVER, TO ENSURE THAT THE COMMISSION CONSIDERS THE

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R 222134Z FEB 78
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US SUBSIDIARY POINT OF VIEW IN ANY EVENTUAL POLICY.

14. CONCLUSION: THE EC COMMISSION AND EUROPEAN AUTO
INDUSTRY OFFICIALS FEEL SERIOUS TROUBLES MAY BE JUST
A SHORT WAY DOWN THE ROAD. LOST MARKETS ABROAD AND AT HOME
TRANSLATE INTO PROTECTIONIST PRESSURE AND UNEMPLOYMENT.
THE COMMISSION IS HOPING TO CONTAIN THIS PRESSURE WHILE
IT TRIES TO ENCOURAGE THE INDUSTRY TO PUT ITS HOUSE IN
ORDER. CATCH 22 FOR THE COMMISSION IS THAT IT WILL NOT
BE ASKED (OR ALLOWED) TO PLAY AN ACTIVE ROLE IN THE
RESTRUCTURING PROCESS UNTIL THE SITUATION BECOMES
CRITICAL. HINTON
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INDUSTRY, AUTOMOBILES
Control Number: n/a
Copy: SINGLE
Draft Date: 22 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRUSSE03430
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780085-0389
Format: TEL
From: BRUSSELS USEEC
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1978/newtext/t19780230/aaaaayvj.tel
Line Count: 330
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3529257
Secure: OPEN
Status: NATIVE
Subject: EC AUTO INDUSTRY FACES PROBLEMS
TAGS: EIND, ETRD, EGEN, EEC
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/55beb7d2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014